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THE POSSIBILITY OF COMPETITION IN COMMERCE AND INDUSTRY

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Our industrial system has become what it is as a result of competition and our entire policy in dealing with it depends on the question whether competition will or will not continue. If it does not continue, the safety of the public will depend on a regulation of prices by officials of the state. The objections to this measure are little appreciated. The complexity and difficulty of the work of fixing prices by authority and the uncertainty of the results are self-evident. Not quite so self-evident are the checks which the policy would put on technical improvement and the paramount importance of such improvement. Prices as fixed by a commission would doubtless be based, in the main, on the cost of production and a reasonable return for the producer. On such a basis a great trust might be able to make as much with antiquated appliances as with modern ones, and it would naturally rebel against the necessity of "sacrificing capital" by throwing away the machinery it has. So to speak, it would make no adequate use of a junk heap, and invention would stagnate—than which, if it became a general condition, no greater evil of an economic sort is conceivable.

On the other hand, if competition should continue, another measure would come into view as a possibility and it needs to be examined in advance. It is a certain restriction of the size of corporations. If they were large enough to do all the business in their several departments and were actually doing it, of course competition of an active sort would be extinct; but competition of a potential kind might theoretically remain. It is all important to determine whether this condition is or is not a satisfactory one.

Potential competition is a regulator of prices and is the product of natural law rather than legislation. It once gave promise of being, in itself, powerful enough to keep prices within a short distance of their proper level. In the eighties a number of the great trusts underwent reorganization in consequence of disregarding this in-

fluence. They raised prices too high and the potential competitor, who might have remained as a latent force, promptly materialized as an active competitor and broke the prices down. It was an object lesson, inspiring a salutary respect for the power of competition, and some of that respect remains, though not all.

The limit on prices which merely potential competition now furnishes is not a close one, and the reason for this is the power of the great producer to "slug" the small one when he actually appears in the field, by preferential rates of transportation, by local discrimination in the prices of goods, by the factors' agreement, and by other measures. The great producer has maintained his monopoly by driving his rival from the field, and has done it by unfair play, which can be ruled out by law. It is as if, in a game of chess, a bully could arbitrarily pick off his opponent's queen and defy him to restore it; or as if, in a game of whist, he could appropriate trumps or aces *ad libitum*. It is as if, in a football game, he could foully disable his opponent, in defiance of umpires.

In the economic field mere size does not, in itself, guarantee success in the contest of survival. The victory goes, under normal conditions, to essential excellence and that trait may be possessed by the smaller company rather than by the great one. Excellence as a public servant normally enables any producer to thrive and grow, and if this is made to be the actual test, as well as the natural and right one, the entire question of the continuance of competition will be translated to a higher plane. The excellent servant with a small capital will have an indefinitely better chance than he now has for survival, and until this condition is created it is unintelligent to draw the conclusion that competition is moribund. This means that we cannot know whether effective competition will survive or not till we have taken measures to prevent it from being killed by foul blows.

Some of those measures have long been well known, as a matter of theory, and some effort has been made to put them into practice. There is less favoritism in transportation than there once was. Local price discriminations and the factors' agreement are things which can be repressed. The monopolizing of raw materials can be prevented and, in a general way, a condition can be created in which any producer can thrive if only he renders to society a service which entitles him to do so. When that has been done,

it will be time to pronounce a final judgment on the future of competition. Before it has been done, it would be an absurdity to do so.

Potential competition is now by no means extinct. In the case of every trust, however powerful, it has some influence on prices, but its influence is not what it should be. It is by no means what it will be when the foul blows of which it is now in danger shall be ruled out. It is all important that we should have clear evidence of its existence and its efficiency, and the only evidence which is conclusive is the presence of a certain amount of active competition. Where prices are high enough to afford a handsome profit to a new producer and he actually does not appear, there is something wrong in the situation. The evidence that he can appear will be furnished if he sometimes does so.

In industries where trusts are extremely powerful, there are usually some independent producers. If they are tolerated only by grace of the trust and can operate only in small and sharply defined fields, they afford no evidence that competition is really free. There may be a policy in letting them live as a means of hoodwinking the public and as the basis of the claim before the courts that no monopoly exists. If their existence is not a matter of tolerance but of necessity, if the trust cannot crush them without unfair blows and is not allowed to resort to these, then a certain freedom of competition does exist.

It will always be for the interest of a great corporation to possess itself of the whole of its field, if it can do so without danger. As has been said, the government can make that dangerous; but it can do more than this, namely, it can reduce the temptation to resort to evil practices, by making impossible the gains that now come by means of them. It can prevent a corporation from absorbing a rival's business as the result of a successful war upon him.

We are living under the Sherman Law, and there is no probability that it will be essentially changed. There is, at present, good reason why it should not be. It is to be hoped and expected that corporations doing inter-state business will be required to act, either under a federal license or a federal charter, and that an industrial commission of some kind will decide who shall receive such charters. In performing this duty, the commission will be the supreme protector of the public, and if it is able and faithful, it will never license a company which is in possession of the whole field of its special

industry. It will impose on every corporation a burden of proof; first, that it does not have the whole field; secondly, that rivals maintain themselves by their own excellence and are not tolerated as a blind for the public; thirdly, that there are enough of them to affect the standards of price in the whole industry; and fourthly, that the way is so open for the entrance of more that prices cannot become extortionate.

It will be seen that this amounts to putting some restriction on the size of corporations. If we call it a definite regulating of the amount of their capital, we use a somewhat misleading expression, for the policy does not involve determining, in a statutory way, what fraction of the total capital of an industry a particular company shall control. To say that a corporation shall never be allowed to have more than fifty or seventy-five per cent of the total capital of the industry would lead to practical difficulties; and though it may be possible to surmount these, it is much easier to avoid them. If we refuse federal charters or licenses to corporations which cannot show that active competition exists and that potential competition is free and effective, we accomplish the purpose in view, and it is then less important whether the field is in the possession of one colossal company and many smaller ones, or in that of one company which is very large and a number of others of moderate size. If this were the place to argue the question, I would maintain that under such a system, tolerant competition, as distinct from cut-throat competition, is probable. The motive for a fierce war of prices is a desire to absorb a rival's business and it will be removed if that absorption itself is rendered impossible. It is an unthinking judgment that assumes at once that even such a division of a trust as should make ten corporations out of one would be followed by a war of extermination between them, and that the necessity for a future union would so reveal itself. We can divide an enormous trust into ten fragments, if we wish to do so, and can probably escape the direful war of prices which many persons anticipate. Nevertheless the view here advocated is that such drastic divisions are probably unnecessary. What may be said with certainty is that the need of them has not been proved. Short of that it is in our power to give to competition complete, vigorous life, and thus to retain, in our industry, that principle of progress on which the value of the system and the hopes of all that live by means of it depend.